

### **GREAT-WEST LIFE CO**

#### **GWO Agrees To Sell U.S. Health Care Division US\$1.6 Billion Proceeds To Go Towards Putnam Extremely Positive For Earnings Growth Potential**

#### **EVENT**

Great-West Lifeco (GWO) announced yesterday that it is selling its U.S. health care division to CIGNA Corp. for US\$2.25 billion with after-tax cash proceeds of US\$1.6 billion. Management indicated that it will use the proceeds to repay financing associated with the Putnam purchase. The transaction is expected to close in mid-2008.

#### **CONCLUSION: BUY – 12 MONTH TARGET MAINTAINED AT \$41.50**

A great move for GWO as its Health Care unit has been struggling for scale and profitability. This deal completes the financing for Putnam with no need for equity financing. Since we had assumed that there could be an equity financing, the impact of this deal will be neutral on our EPS estimate for 2008 (the loss of earnings from the Health Care will be offset by the lack of dilution from an equity issue). However, and far more significant, is that we expect the growth potential from Putnam will be greater than that which would have been generated from the stagnant Health Care unit.

We see this deal as reinforcing managements focus on the wealth management (retirement) sector in the U.S. and consequently we expect more transactions in the U.S. like the ones outlined below. Management indicated the deal is valued at 13x earnings and given the difficulties being experienced in this sector, namely cost pressures, loss of membership and medical cost inflation, we view the price received as positive. There is a price adjustment which could lower the amount received by GWO by up to about US\$200 million if certain benchmarks are not met.

We are maintaining our 2007 and 2008 EPS estimates for GWO of \$2.46 and 2.77 respectively. ROE is expected to remain strong at near 22%. We expect a trailing dividend payout ratio of 47% to 50% which would suggest further dividend increases over the next 18 months to the \$1.35 to \$1.40 level (annualized at about 18%). We maintain our BUY recommendation.

#### **VALUATION**

We are maintaining our 12 month target share price for GWO at \$41.50 based on what we believe is a solid, low risk, global growth opportunity using an “add-on” acquisition strategy focused on the wealth management sector. In addition to the Putnam transaction, GWO has made four other add-on acquisitions which collectively we expect to be significantly accretive to 2008 EPS. More significant is our expectation that GWO may make several more of these add-on acquisitions over the next 12 months and further enhance EPS in 2008 and 2009. We continue to highly endorse this strategy. Our valuation also recognizes the good constant currency underlying earnings growth at GWO and the significantly higher yield of 3.1%. Our total expected return over the next 12 months for GWO is 20.8%.

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## RECENT GWO ASSET MANAGEMENT TRANSACTIONS IN THE U.S.

1. **US 401(k) Block From US Bancorp** – In December, 2006, GWO announced the acquisition of the 401(k) business of US Bancorp. The deal adds \$9 billion of assets, 1,900 plans and 195,000 participants. Assets now total almost \$30 billion with 7,100 plans and almost 1 million participants.
2. **US 401(k) Block From MetLife** - In June, 2006, GWO announced the acquisition of the 401(k) business from MetLife. The deals adds US\$8 billion in AUM. Included and perhaps equally important is that the acquisition included the associated dedicated distribution group including wholesalers, relationship managers and sales associates.
3. **Putnam Investments** – In August, 2007, GWO acquired the asset management business of Putnam Investments Trust as well as a 25% interest in T. H. Lee Partners. The purchase price was US\$3.9 billion payable in cash. Putnam manages US\$192 billion of AUM and is the 10th largest mutual fund manager in the U.S. It operates a distribution network of 169,000 financial advisor relationships and 9 million shareholder accounts.

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